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INTERNATIONAL

Seoul's Courting of East Bloc Bears Fruit

Motives Differ for Korean Businessmen, Diplomats

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SEOUL, South Korea—When the Soviet team headed home from the Olympics it took along 36 Korean television sets, seven minibuses, four large buses, four cars and a photocopying machine—all courtesy of Daewoo Corp.

The gifts were the more-visible fruits of the recent romance between South Korea, self-proclaimed honor student of the capitalist school, and socialist countries eager to take advantage of its economic success. The East bloc euphoria showed up in such recent local events as the Bolshoi Ballet's first visit here, a rash of goulash specials in local restaurants and gossip about a love match between Chinese and Korean pingpong players.

Korean exporters envision new markets in Communist countries at a time when they see Western trading partners erecting protectionist walls. But for the Korean government, after decades without any relations with the socialist world, the new frontier is diplomatic.

Market and Source

To socialist countries, Korea is not only a rapidly growing market for raw materials and manufactured products, but also a source of consumer goods, parts, technol-

ogy and managerial expertise. Korea may even become a source of badly needed capital, especially when it becomes a net creditor in a few years.

But a match that the more exuberant participants believe is made in heaven faces some down-to-earth problems. Analysts say Korean businessmen are likely to run into the same obstacles their U.S., West European and Japanese counterparts have encountered in socialist countries: foreign-currency shortages, stifling bureaucracy and a paucity of attractive products for countertrade. Countertrade involves the use of goods, rather than cash, to pay for imports.

Moreover, as the two sides pursue manufacturing joint ventures, the mix of workaholic Korean entrepreneurs and East-bloc bureaucrats may prove awkward. Says one East European trade promoter, gesturing at the bustling Korean office where he is based temporarily: "Look, it's 5:30 and everyone is still in the office. In my country, it's strictly 8 to 3, then the pencil drops. Our workers expect a month's vacation. It's a very different culture."

Regardless of the obstacles, South Korean trade with China rose 15% to \$1.5 billion in 1987, according to Korean government figures—an amount larger than China's trade with North Korea, an ally of

Beijing. Trade with the Soviet Union is up 44%, to \$164 million last year. Hungary and Yugoslavia recently established trade offices in South Korea, and the Soviets may follow. Seoul and Budapest plan to exchange permanent missions at a level just below full diplomatic ties.

Diplomacy, Not Business

But for the moment, businessmen and sources close to the government say, the growing economic ties, which account for only about 2% of South Korea's total trade, are only the icing on the cake. "Economically, the East bloc countries aren't that important to us," says an executive at a major business group. "Diplomatically, they are."

South Korea hopes to use the prestige gained at the Olympics to build relations with countries such as the Soviet Union and China, which ignored their ally North Korea's boycott and participated in the games. Only Cuba, Albania and Ethiopia remained faithful to the North.

South Korean officials won't discuss the shift for the record, but Seoul appears to hope that ties with Moscow and Beijing will pressure North Korea to reduce tensions with the South. President Roh Tae Woo recently told the National Assembly that improved ties with East bloc countries "should stimulate North Korea into opening itself up and emerging as a responsible member of the world community."

Seoul isn't questioning the fundamental necessity of its longstanding alliance with the U.S. But it believes an altered relationship could reduce tensions with the North. By publicly asserting more independence from the U.S., the Korean government could also reduce the growing irritation many Koreans feel toward their dependence on a foreign power. President Roh has been stressing the need for South Korean independence in his speeches.

Moscow, eager to obtain a political foothold in the prosperous Pacific Rim countries, is happy to make friends with South Korea, an opening that the Soviet Union has been seeking since Mikhail Gorbachev's 1986 Vladivostok speech calling for a new era in Soviet relations with the Asian

Waiting for Japan, U.S.

On the economic front, the Soviets are trying to attract Korean companies to massive development projects proposed for Siberia. But despite their interest, Koreans say their participation depends on financing and coordination by Japanese and U.S. companies, which remain cautious.

If the Soviet Union wants Korean friendship, China wants its refrigerators, television sets and manufacturing technology. Beijing is eager to substitute less-expensive Korean goods for high-priced imports from Japan. Korea exports consumer electronics, components, steel and chemicals to China and imports coal, pig iron, grain, raw cotton and silk fiber. Exports to China in the first half more than doubled from the same period of 1987 to \$714 million. Imports rose 31.1% to \$45.6 million. China's lack of foreign exchange is forcing some companies to utilize countertrade. But regardless of payment method, Korean traders say transportation bottlenecks in China make supplies of raw materials unreliable, and some say they plan to reduce purchases of Chinese coal.

The Chinese are eager to establish joint ventures to utilize Korean technology, considered more appropriate to China's needs than more-sophisticated Japanese technology. But only a few Korean firms have moved to invest. One senior manager at a large trading firm says he has been visited by eight Chinese delegations in the past month, but hasn't been convinced.

'They Aren't Ready'

"Before you invite someone to dinner, you should cook all the food, lay it out nicely, prepare even the chopsticks," he said. "They haven't done that. They aren't ready for us yet."

Korean businessmen who have visited Shandong, the Chinese province nearest to South Korea, say it lacks the energy and transportation infrastructure and economic organization to make manufacturing worthwhile. Businessmen also say the lack of diplomatic relations makes it difficult to establish legal guarantees for ventures, or to establish the government-to-government ties that aid business.

But despite the obstacles, some Korean companies are setting up assembly plants. Daewoo has a refrigerator venture in Fujian province that began production in June. Pohang Iron & Steel Co. is reportedly studying a venture in China, possibly with U.S. or Australian cooperation.